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EXCEPTION

BEFORE THE ARIZONA CORPORATION

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AZ CORP COMMISSION
DOCKET CONTROL**COMMISSIONERS**

SUSAN BITTER SMITH, Chairman
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IN THE MATTER OF THE APPLICATION OF
EPCOR WATER ARIZONA, INC. FOR A
DETERMINATION OF THE CURRENT FAIR
VALUE OF ITS UTILITY SERVICE BY ITS
MOHAVE WATER DISTRICT, PARADISE
VALLEY WATER DISTRICT, SUN CITY WATER
DISTRICT, TUBAC WATER DISTRICT, AND
MOHAVE WASTEWATER DISTRICT.

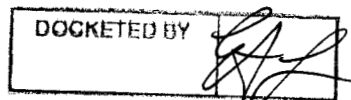
) DOCKET NO. WS-01303A-14-0010
)
)
) **NOTICE OF FILING**
) **EXCEPTIONS TO**
RECOMMENDED OPINION
AND ORDER

On behalf of the Santa Cruz Valley Citizens Council, James Patterson and Rich Bohman hereby file this set of Exceptions to the Recommended Opinion and Order dated August 7, 2015.

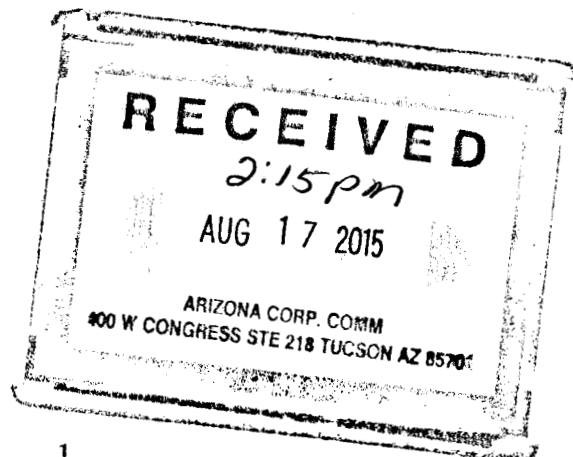
RESPECTFULLY SUBMITTED this 17th day of August, 2015:

Arizona Corporation Commission
DOCKETED

AUG 19 2015



James S. Patterson
President
Santa Cruz Valley Citizens Council



1 **Exception 1 - Corporate Allocations**

2 The Recommended Opinion and Order addresses Corporate Allocations (Page 36, Section IV, B-5)
3 but allows excessive amounts on the basis that water districts and their customers "... receive a number of
4 benefits related to the corporate structure." Examples given are "access to low-cost capital ... financial,
5 technical and managerial expertise, and the ability to share certain operating expenses with other systems."
6 This statement sounds reasonable in principle and true to a certain extent, but it ignores the multiple layers
7 of corporate structure, which beyond Epcor Water Arizona are simply duplicative.

8 The Tubac Water District is overseen and receives services from Epcor Water Arizona, which is
9 overseen by Epcor Water USA which is overseen by Epcor Utilities Inc. These two additional corporate
10 layers provide no direct benefit to water districts.

11 In the expense statement for each water district, there is a line item titled "Corporate Allocations."
12 But there is also an allocation for corporate overhead embedded in 11 of 13 other expense line items. This
13 redundancy adds more than \$100,000 to Tubac's cost structure. Further, Epcor Water Arizona pays a
14 significant dividend each year, \$10 million, to the next corporate layer; this should be more than adequate
15 remuneration for what amounts to investment oversight.

16 Excessive corporate overhead that is of no direct use to the Tubac Water District becomes glaringly
17 apparent by comparison with a nearby water system, Baca Float Water, which filed a rate increase request
18 on December 30, 2014 (Docket #WS-01678A-14-0425). Baca Float's costs per customer and costs per
19 million gallons pumped are significantly lower than Epcor Water's Tubac District (see Citizens Council
20 Exhibit A - Revised, in SCVCC Surrebuttal Testimony). When the Corporate Allocation line item is
21 removed from Epcor's cost structure, or when corporate overhead is stripped out of other line items, the
22 costs of providing water to the two systems' customers becomes comparable and competitive.

23 Because of the way in which the Company's expense statements are constructed, the true extent of
24 corporate overhead is obscured and far exceeds the single "Corporate Allocations" line item. None of the
25 water districts in this case should be burdened with overhead for corporate layers beyond Epcor Water
26 Arizona. A large portion of these embedded expenses should be scrutinized and disallowed.
27
28

1 **Exception 2 - Tubac Storage Tank**

2 The Santa Cruz Valley Citizens Council appreciates the attention given to the issue of
3 additional storage capacity for the Tubac Water system (Page 67-68, Section VIII E of ROO).

4 However, we continue to believe that this docket should be closed with regards to that issue. The
5 results of a future hydraulic study should be given adequate time for consideration along with
6 thoughtful determination of the facility's location and associated costs. The actual need for storage
7 should be addressed in a future rate case; at that time any necessary facility should be rate-based.
8 In the meantime, both prior case evidence and a reading of the relevant statutory language refute
9 the claim that storage is necessary or mandated.
10

11 **a. Prior Evidence** - We continue to cite the 2009 case in which Staff withdrew its
12 recommendation for storage following disclosure that an inactive well (#3) was placed back on-
13 line (Docket No. WS-01303A-09-0152). Staff said at the time:
14

15 *"On May 28, 2009, the Company informed Staff that the third well was now producing*
16 *water that meets water quality standards and as a result this well was returned to service as of*
17 *April 29, 2009.*

18 *"Based on this new information Staff now concludes that the Tubac water system has adequate*
19 *existing water production capacity (810 GPM) and storage capacity (50,000 gallons) to service*
20 *existing customers plus reasonable growth." [emphasis added]*

21 In support of Staff's position, the company said in an exception to the Recommended Opinion and
22 Order dated May 22, 2009 (filed May 28, 2009):
23

24 *"...the additional capacity provided by Well #3 will then provide sufficient capacity without*
25 *the need for additional storage."*

1 Since that time, growth in the Tubac Water District has amounted to 7-8 connections. And
2 the growth projected by Staff Engineer Michael Thompson has already been overstated by more
3 than 16 connections (Table D, Thompson direct testimony).

4 Based on the evidence presented above, the need for additional storage based on current
5 demand and reasonable growth is refuted.

6 **b. Statutory Reading Contradicts Staff and Company Testimony** - A reading of the Arizona
7 Code (Title 18, Chapter 5, Section 503 - Storage Requirements) indicates that additional storage is
8 not a requirement for the Tubac Water District:
9

10 "A. The minimum storage capacity for a CWS or a noncommunity water system that serves
11 a residential population or a school shall be equal to the average daily demand during the peak
12 month of the year. Storage capacity may be based on existing consumption and phased as the
13 water system expands. [Tubac peak-month ave. daily demand = 297,800 gal.]

14 "B. The minimum storage capacity for a multiple-well system for a CWS or a
15 noncommunity water system that serves a residential population or a school may be reduced by the
16 amount of the total daily production capacity minus the production from the largest producing
17 well."
18

19 During the peak month of the test year, June 2013, EWAZ reported the Tubac Water
20 system had 8,934,000 gallons of water sold. Average daily demand for the month was determined
21 to be 297,800 gallons per day (page 304 Staff Direct Testimony, Michael Thompson). The
22 calculation of required storage based on Arizona Code is:
23

24 **Step 1:** The production of the three wells in the Tubac District is:

25 450 gpm (well 5)

26 350 gpm (well 4)

27 130 gpm (well 3)
28

1 **Total:** 930 gpm

2 **Step 2:** Total Daily Production = 930 gpm x 60 minutes = 55,800 gph, x 24 hours = 1,339,200
3 gallons per day.

4 **Step 3:** Largest producing well #5 produces: 450 gpm x 60 minutes x 24 hours = 648,000 gallons
5 per day

6 **Step 4:** Minimum storage = peak-month average daily demand = 297,800 gpd

7 **Step 5:** Min. Storage Capacity reduced by Total Daily Production minus Largest Well Production
8 297,800 gpd - (1,339,200 gpd - 648,000) = *negative* 393,400

9 **Conclusion:** no storage required under Arizona Code, Title 18, Chapter 5, Section 503

10 The issue of storage should be considered for inclusion in the next rate case. This docket should be
11 closed with regards to storage.

12 **Exception 3 - Tubac Water District Cost of Capital**

13 We advocated for a separate cost of capital for the Tubac Water District based on the high
14 proportion of long-term debt represented by our WIFA loan, for which we wrote and secured the
15 grant. Thus, we were pleased with the conclusion in the ROO supporting that position (Pages 37-
16 39, 41-43, Section V, A,B,D). However, we disagree with the slightly lower debt to higher equity
17 ratio assigned to Tubac Water District. This has the effect of reducing the impact of the WIFA
18 loan on the total weighted cost of capital from 30 basis points to 11 basis points. The different
19 debt/equity percentages assigned to Tubac appears to be due to the outstanding amortized amount
20 of the WIFA loan as of December 30, 2014. However, all debt, equity and coupon rates are
21 amounts which were established and determined by the test year. This is the period in which the
22 WIFA loan amount should be fixed too.

23 We ask that in the Final Decision, the full 30-basis-point spread between the Tubac Water
24 District's cost of capital and other districts' cost of capital be recognized (ref. Citizens Council
25
26
27
28

1 Exhibit B- Cost of Capital, submitted with Summary Testimony at ACC Hearings, March 10,
2 2015. This Exhibit does not recommend any specific weighted cost of capital, but rather
3 establishes a rationale for the 30-basis-point spread).

4 **Exception 4 - Phase-in of Rate Increase**

5 The SCVCC takes exception to the ROO's disallowance (page 51, section VII, C) of a
6 phase-in of the allowed rate increase (more than a 48% increase for the average residential user)
7 over a three-year period.

8 The SCVCC asked for a phase-in period of three years, with no recovery of foregone
9 revenue by the Company, due to the financial shock that Epcor's Tubac customers will experience.
10 In addition to the allowed rate increase, Epcor's Tubac customers face a three-year surcharge to
11 pay back deferred, accumulated arsenic media expenses totaling \$101,000, plus the potential for
12 increased power cost adjustments. Thus, the average residential consumer's prospective bill of
13 \$79.42 per month will actually be higher - i.e. more than the 48.3% nominal increase allowed by
14 the ROO.
15

16 We note that Tubac consumers face these extraordinarily high rates for at least four years,
17 and then would have relief only if rate consolidation were to be approved and implemented. The
18 SCVCC has been a proponent of consolidation and we are encouraged that the ROO includes a
19 directive for Epcor Water Arizona to file a rate case with a consolidated rate scenario no later than
20 July 1, 2018 (page 50, section VII, B).
21

22 In the meantime, the rate increase allowed for the Tubac Water District should and will be
23 viewed as "rate shock," a primary reason why a phased-in approach should be granted to
24 consumers. Such a phase-in has precedent: In the Global Water rate case (DOCKET NO. W-
25 01212A-12-0309 ET AL., Decision 74364), the parties agreed to a phase-in period of three to eight
26 years, with no recovery of foregone revenue or carrying costs.
27
28

1 We ask that the final decision in this case include a phase-in period for the Tubac Water
2 District to mitigate the sudden impact of what will be by far some of the highest water rates in
3 Arizona. In good faith, Epcor should agree to this concession, as did the parties in the Global
4 Water case.

5 **Exception 5 - Declining Usage Adjustment**

6 The Recommended Opinion and Order grants the Company's request for a declining usage
7 adjustment (Page 49, Section VII, paragraph A). For Tubac, this is calculated as a *projected* 6.7%
8 decline, a decrease that is anywhere from two to 12 times that projected for other water districts in
9 this case. Paradoxically, in this same case we are facing a potential requirement for storage
10 predicated in part on "reasonable growth"; yet we are also facing a one-way, built-in inflation to
11 our monthly minimum charge based on declining usage.
12

13 While it may be true that the magnitude of the rate increase allowed in this case may lead
14 to declining usage per customer, many of the easy consumption remedies have already been
15 implemented following the last round of rate increases. There is already a vivid awareness of the
16 high cost of water here in Tubac. A second round of declining usage like the one this 6.7%
17 adjustment is predicated upon is unlikely. More likely is a scenario where added connections and
18 use offset attempts to further conserve by existing consumers.
19

20 Most troubling however, is that there is no mechanism to account for variations in the 6.7%
21 declining usage projection. This projection is built in to the Tubac District's monthly minimum
22 charge for at least the next three years or until a decision in the next rate case becomes effective.
23

24 We ask that a mechanism be included, as RUCO recommended, that assures relief in the
25 event that usage does not decline according to projections, or if growth increases overall demand.
26 This is referred to as a "true-up," and should be considered a basic and reasonable protection for
27 consumers in this case.
28

1 **Exception 6 - Rate Design**

2 We disagree with the apparent conclusion in the ROO (Page 47-48, Section VII) that all of
3 second-tier usage (3,000-10,000 gallons) is discretionary, thus providing a basis for increasing the
4 spread between the first and second tiers ("the spread between the first and second tier was
5 increased - converting a portion of revenues from non-discretionary to discretionary" pg. 48).
6 Further, this logic seems contradictory to the balance of the Order to *decrease* the spread between
7 the third and fourth tiers. Usage in theory should become more discretionary at increasing levels,
8 and therefore price signals should be sent by increasing spreads at higher levels. When the tier
9 structure is flattened it deters conservation.
10

11 We believe that the monthly minimum charge is overloaded in the Company's favor. We
12 note that the increase in the monthly minimum charge is 58%, from \$24.70 per month to \$39.00
13 per month, and that this increase is significantly more than either Staff or RUCO suggested in their
14 final proposals. Shifting the revenue requirement to a guaranteed source is contradictory to the
15 goal of encouraging conservation.
16

17 The rate design in the Final Decision should include less reliance on a monthly minimum
18 by reducing that amount at least to the level suggested in final briefs by Staff (\$35.77), and that the
19 commodity charge should be increased between the third and fourth tiers to compensate and match
20 required revenue.
21

22 **Exception 7 - Magnitude of Rate Increase**

23 We note with dismay that the Recommended Opinion and Order establishes rates that
24 exceed both RUCO's and Staff's recommendations.

25 The monthly minimum charge of \$39.00 exceeds Staff's \$35.77 by 9%. It exceeds RUCO's
26 by 23%. The average residential bill resulting from the ROO (\$79.42) exceeds Staff's
27
28

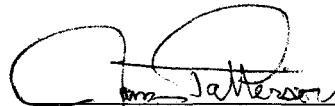
1 recommendation of \$74.63 by more than 6%, and RUCO's \$67.32 by 18%. These amounts don't
2 include the added PCAM and Arsenic Media Amortization costs.

3 Ironically, the aquifer beneath the Tubac District's wells are part of the Santa Cruz Active
4 Management Area (SCAMA), the only Arizona Department of Water Resources AMA that is self-
5 sustaining — yet we pay more than any other district in Arizona.

6 We believe that the Final Decision establishing rates should respect Staff and RUCO's
7 expertise and diligence, as well as RUCO's balanced efforts to protect utility consumers.
8

9
10 Dated this ____ day of August 2015.

11
12 James S. Patterson

13 

14 President Santa Cruz Valley Citizens Council

15
16 ORIGINAL and thirteen (13) copies
17 of the foregoing will be filed the ____
18 day of August 2015 with Docket
19 Control

20 Docket Control
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